



## CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

August 4, 2004

### **S. 593**

### **Reservist Pay Security Act of 2004**

*As ordered reported by the Senate Committee on Governmental Affairs  
on July 21, 2004*

#### **SUMMARY**

S. 593 would authorize an increase in federal salaries to pay for the difference between civilian and military compensation for federal employees called to active duty in the uniformed services or National Guard. The legislation also would authorize the appropriation of \$100 million for retroactive pay for the difference between civilian and military compensation for federal employees activated since October 11, 2002.

CBO estimates that implementing S. 593 would cost \$152 million in 2005 and \$334 million over the 2005-2009 period. (Retroactive pay would account for an estimated \$128 million of the five-year cost.) Most of the costs of the bill would be paid from agencies' appropriations, but S. 593 would also affect off-budget direct spending of the U.S. Postal Service (USPS). About \$6 million of the 2005 cost (and \$4 million in 2006) would be paid by the Postal Service. Over the 2005-2014 period, however, we expect that such costs would be offset by revenues from higher postal rates.

S. 593 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would impose no costs on state, local, or tribal governments.

#### **ESTIMATED COST TO THE FEDERAL GOVERNMENT**

The estimated budgetary impact of S. 593 is shown in the following table. The costs of this legislation fall within all budget functions that include federal salaries.

	By Fiscal Year, In Millions of Dollars				
	2005	2006	2007	2008	2009
<b>Changes in Spending Subject to Appropriation</b>					
Retroactive Federal Employee Reservist Pay					
Estimated Authorization Level	128	0	0	0	0
Estimated Outlays	88	40	0	0	0
Prospective Federal Employee Reservist Pay					
Estimated Authorization Level	58	44	38	35	31
Estimated Outlays	58	44	38	35	31
Total Proposed Changes					
Estimated Authorization Level	186	44	38	35	31
Estimated Outlays	146	84	38	35	31
<b>Changes in Off-Budget Direct Spending</b>					
Federal Employee Reservist Pay - Postal <sup>a</sup>					
Estimated Budget Authority	6	4	-1	-1	-1
Estimated Outlays	6	4	-1	-1	-1

a. The direct spending amounts shown for this provision are the off-budget effects associated with the cost of providing the difference between civilian and military compensation for postal workers called to active-duty military service. The net expenditures of the U.S. Postal Service are classified as "off-budget." Over the 2005-2014 period, CBO estimates that this provision would have no net cost as the USPS would adjust its rates to fully recover the cost of higher salaries provided to its employees called to active duty.

## BASIS OF ESTIMATE

Based on information from the Department of Defense (DoD), CBO estimates that federal employees account for approximately 120,000 positions or almost 15 percent of the total Ready Reserve. For this estimate, we assume that 15 percent of those reserves called to active service at any time are federal employees.

In a 2000 DoD survey of 35,000 reserve personnel, 59 percent of surveyed reservists (including federal employees) reported either no difference in their income while on active-duty military status or an increase in their income while on active duty, while 41 percent reported a loss of income during mobilization and deployment. For this estimate, CBO assumes that those self-reported survey data are applicable to the federal employees affected by the current call-up of reservists and National Guard forces.

Of the 41 percent of survey respondents who reported a loss of income during military reserve service, most (about 70 percent) said their income was reduced by \$3,750 or less while on active duty. Some reported much larger losses. For example, approximately 7 percent of those reporting an income loss indicated a loss of \$37,000 to \$50,000 annually. Considering the loss in income reported by all survey respondents and the number who reported no loss or an increase in salary, CBO estimates that the average annual reduction in salary while serving in the active-duty military is about \$3,000.

## **Spending Subject to Appropriation**

**Retroactive Federal Employee Reservist Pay.** S. 593 would authorize an increase in federal salaries to pay for the difference between civilian and military compensation for federal employees called to active duty in the uniformed services or National Guard. That increase would apply not only to future service but also to service since October 11, 2002, subject to the availability of appropriations. The bill also would authorize the appropriation of \$100 million for the cost of providing the difference between military and civilian pay since October 11, 2002. Based on information from DoD about the use of military reserves and National Guard, CBO estimates that about 42,500 person-years of active-duty military service will have been performed by federal employees from October 11, 2002, through September 30, 2004, when we assume the bill would be signed into law. Using the above assumptions on the average annual reduction in salary while serving in active duty and assuming appropriation of the necessary amount, CBO estimates that the retroactive pay provision would cost \$128 million. We expect that some of those payments would be made in 2006 because of the time required to determine pay differentials and adjust payroll systems.

**Prospective Federal Employee Reservist Pay.** The cost of implementing the legislation for federal employees on active duty in the future depends on the size of the future reserve force, which in turn depends on the duration of the military operations in Iraq and Afghanistan and the forces required for it, as well as the size and duration of any future military conflicts, all of which are uncertain. For this estimate, CBO assumes that the total number of reservists on active duty will decline from about 160,000 person-years in fiscal year 2005 and to about 87,500 person-years by 2009. If the number of reservists called to active duty were to remain at current levels over the 2005-2009 period, the cost of implementing S. 593 would be significantly greater.

Based on the above assumptions about the future size of the reserve force, CBO estimates that an average of about 21,000 federal employees will be on active-duty military service in fiscal year 2005, diminishing to approximately 11,500 by 2009. On that basis, CBO estimates that the prospective costs of implementing this provision would total \$58 million

in 2005 and \$206 million over the 2005-2009 period, assuming the appropriation of the necessary amounts.

### **Direct Spending**

In general, federal salaries are paid from agencies' annual appropriations, but this bill would also affect the U.S. Postal Service, whose spending is not governed by appropriation action. CBO estimates that enacting this legislation would increase direct spending of the USPS by about \$6 million in 2005 and \$4 million in 2006. (Spending and receipts of the Postal Service are classified as off-budget.) Beginning in fiscal year 2007, additional costs would be covered by additional revenues because the USPS is required to set rates to cover its costs; CBO expects that the next rate increase will occur in 2006. At that time, CBO expects that the USPS also would seek to recover prior, unanticipated costs. Consequently, S. 593 would have no net impact on Postal Service outlays over the 2005-2014 period.

### **INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT**

S. 593 contains no intergovernmental or private-sector mandates as defined in UMRA and would impose no costs on state, local, or tribal governments.

### **PREVIOUS CBO COST ESTIMATES:**

On July 21, 2004, CBO transmitted a cost estimate for S. 2400, the Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005, as passed by the Senate on June 23, 2004. The Senate-passed version of that act and S. 593 contain identical provisions regarding pay for federal reservists. The estimated cost of those provisions is the same.

On May 15, 2003, CBO transmitted a cost estimate for H.R. 1836, the Civil Service and National Security Personnel Improvement Act, as ordered reported by the House Committee on Government Reform on May 8, 2003. On May 1, 2003, CBO transmitted a cost estimate for S. 593, as introduced by Senator Richard J. Durbin on March 11, 2003. H.R. 1836 contains a reservist pay provision but does not authorize retroactive pay. S. 593 as introduced did not authorize appropriations for retroactive pay. Other differences in CBO's cost estimates are due to updated assumptions about the size of U.S. forces in Iraq.

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